Market Review Commentary

First Quarter 2022

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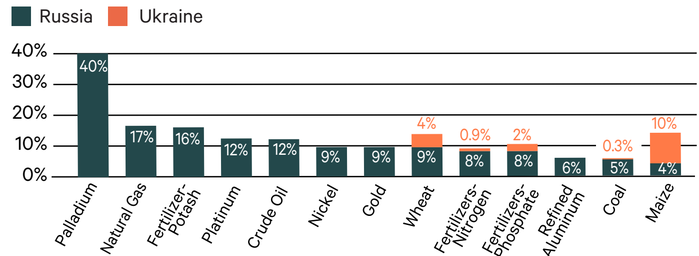
Equity and fixed income markets had a difficult start to 2022. Hawkish Fed policy, rising geopolitical risks abroad, and continued inflationary pressures combined to generate negative returns for both stocks and bonds. The S&P 500 Index spent most of the quarter flirting in and out of correction territory and finished the quarter down 4.60%. Growth stocks, particularly technology stocks, were hit the hardest with the Russell 1000 Growth benchmark finishing down 9.04%. Value stocks fared better due to the low technology exposure in the benchmark. The Russell 1000 Value Index was down 0.74% for the quarter. Small capitalization stocks underperformed large cap stocks with the Russell 2000 Index declining 7.53%. Foreign developed markets, as measured by the MSCI EAFE Index, and emerging markets, as measured by the MSCI Emerging Markets Index, only modestly underperformed the S&P 500 Index declining 5.91% and 6.97%, respectively, despite rising geopolitical risks globally.

Fixed income markets were hit particularly hard during the first quarter as the 10-year U.S. Treasury yield climbed from 1.51% to 2.32%. The two-year U.S. Treasury yield climbed even more from 0.73% to 2.29% (due to the Fed's concerns about inflation), reflecting the market's expectation that the Fed will be more aggressive in raising short-term rates than previously believed. The Bloomberg U.S. Aggregate Bond Index declined 5.93% in the quarter. U.S. high yield, as measured by the ICE BofA U.S. High Yield Index, held up slightly better declining 4.51% due to its exposure to the energy sector. Emerging market debt, as measured by the JPMorgan Emerging Market Bond Index Global, was hit particularly hard declining 9.26%. Unfortunately, fixed income didn't serve its traditional role of capital preservation in difficult equity markets.

IMPLICATIONS OF GEOPOLITICAL EVENTS

Just as the U.S. economy was starting to get back to normal with omicron cases subsiding, Russia decided to invade Ukraine. Although most U.S. companies have very little or no direct business exposure to Russia, the invasion has had a material impact on many commodity markets. Oil, wheat, corn, and aluminum are a few examples of Russia's global export presence.

FIGURE 1: CONTRIBUTION TO GLOBAL PRODUCTION OF COMMODITIES | % of Global Production, Latest



Data is presented as of March 31, 2022. Data is obtained from J.P. Morgan Asset Management, EuroStat and HSBC and is assumed to be reliable. ***Past performance is no guarantee of future results.***

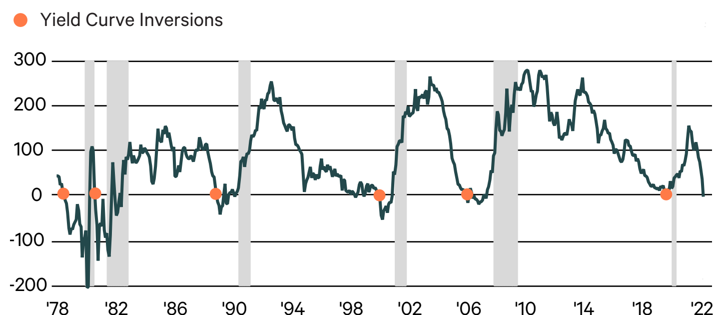
Inflation in the U.S. had already been a problem due to strong consumer demand and supply shortages. Russian export disruptions and sanctions have further exacerbated these short-term inflationary pressures, which has placed even more pressure on the Fed to step up rate increases. This is a largely unpredictable and fluid situation, but the longer these disruptions and sanctions drag on, the more likely Europe (in particular) will fall into recessionary conditions. Cease fire discussions have begun between Russia and Ukraine, but it is difficult to assess whether the parties are serious about a resolution.

Further complicating the geopolitical situation is continued weakness in China due to a weakening property sector, continued adverse regulation on the private business sector, and a zero tolerance COVID-19 policy which have all contributed to slower Chinese GDP growth. Global growth rates were likely to slow in 2022, and these geopolitical events make this even more likely over the next 12-to-18 months.

THE YIELD CURVE AND INFLATION

By the end of the first quarter, the yield curve had flattened significantly, and the 2-year/10-year U.S. Treasury yield spread had slightly inverted.

FIGURE 2: 2-YEAR/10-YEAR U.S. TREASURY SPREAD

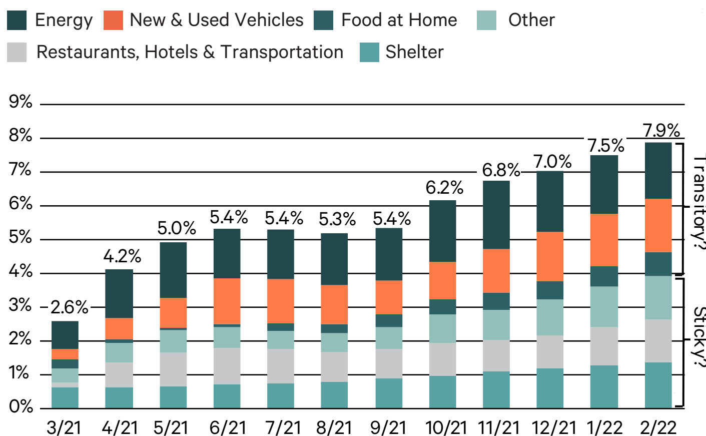


Data presented is as of April 4, 2022 and is obtained from Strategas and is assumed to be reliable. ***Past performance is no guarantee of future results.***

As Federal Reserve Chairman, Jerome Powell, correctly pointed out, the U.S. is in a position of strength economically even creating excess demand currently, but interest rate increases have already affected mortgage rates, car loans, and lease rates here in the U.S. Unless the Fed wants to throw us into a recession (yield curve inversion), the current future shape of the yield curve may prevent as much of an increase in short-term interest rates than what the market is already anticipating. The inflation outlook was particularly cloudy with COVID-19 getting better globally, but the Russian invasion of Ukraine was a clear negative for inflation. Overall, we believe inflation is likely to stay elevated and above the Fed's target for this year at least. However, comparisons of year-over-year inflation do get easier as we move forward. If the trend is headed in the right direction of moderating inflation, the markets may react positively to this development.

FIGURE 3: CONTRIBUTORS TO HEADLINE INFLATION

Contribution to Year Over Year % Change in CPI, Non Seasonally Adjusted



Data presented is as of March 31, 2022 and is obtained from BLS and J.P. Morgan Asset Management and is assumed to be reliable. Values may not sum to headline CPI figures due to rounding and underlying calculations. "Shelter" includes owners equivalent rent and rent of primary residence. "Other" primarily reflects household furnishings, apparel and medical care services. ***Past performance is no guarantee of future results.***

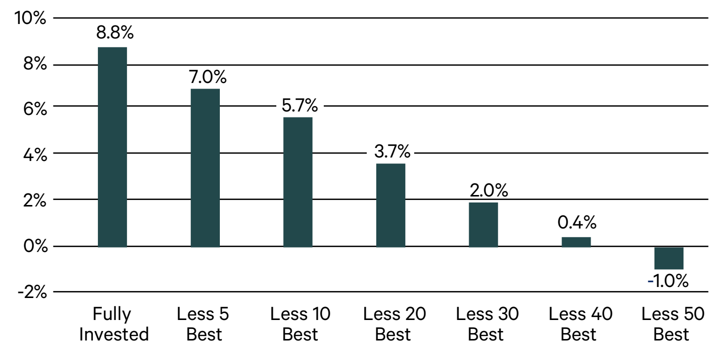
WHAT ARE WE DOING ABOUT THE CHANGING LANDSCAPE?

We are bottom-up investors with a quality focus. From our perspective, a flat or inverting yield curve is an environment where investors should seek out quality companies. A slowing domestic and global economic growth rate usually means investors will focus on solid balance sheets, earnings stability, strong return on equity, and sustainable secular growth. Inflation beneficiaries, such as energy companies, raw material providers, and agricultural providers, saw strong performance in the first quarter, yet many of these outperformers are dependent upon continued levels of disruption in commodity markets to sustain their current prosperity. We will continue to hunt for investment ideas that in our view meet our quality investment philosophy in all sectors of the economy. When inflationary trends begin to moderate, we believe quality companies will become more interesting to investors. Geopolitical risks are clearly still elevated and will continue to be monitored closely.

We thank you for your trust and support in these uncertain times, and humbly encourage clients to stick to their longer-term investment goals despite the elevated volatility in the markets.

FIGURE 4: S&P 500® COMPOUND ANNUAL GROWTH RATE

January 1, 1995 - March 31, 2022



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Douglas S. Foreman, CFA

Chief Investment Officer

Douglas S. Foreman, CFA is Chief Investment Officer, Portfolio Manager, and a member of the Executive Management Committee. He has approximately 36 years of investment experience.

Large-capitalization stocks are represented by the S&P 500® Index which is a market capitalization weighted index which includes 500 of the largest companies in leading industries of the U.S. economy. Growth stocks are represented by the Russell 1000® Growth Index which is a market capitalization-weighted index of growth-oriented stocks of the 1,000 largest companies in the Russell Universe, which comprises the 3,000 largest U.S. companies. Value stocks are represented by the Russell 1000® Value Index which is a market capitalization-weighted index of value-oriented stocks of the 1,000 largest companies in the Russell Universe, which comprises the 3,000 largest U.S. companies. Small-capitalization stocks are represented by the Russell 2000® Index which is a market capitalization-weighted index of the 2,000 smallest companies in the Russell Universe, which comprises the 3,000 largest U.S. companies. The MSCI® EAFE Index is a free float-adjusted market capitalization index that measures developed foreign market equity performance, excluding the U.S. and Canada. Emerging markets are represented by the MSCI® Emerging Markets (EM) Index which is a free float-adjusted market capitalization index tracking the equity performance of global emerging markets. The Bloomberg U.S. Aggregate Bond Index is a market value weighted index that tracks the daily price, coupon, pay downs and total return performance of fixed-rate, publicly placed, dollar-denominated and non-convertible investment grade debt issues with at least $250 million par amount outstanding with at least one year to final maturity. Performance is calculated on a total return basis with dividends reinvested. The ICE BofA U.S. High Yield Index tracks the performance of U.S. dollar denominated below-investment-grade corporate debt publicly issued in the U.S. domestic market. The J.P. Morgan GBI EM Global Diversified Index tracks the performance of local currency debt issued by emerging market governments, whose debt is accessible by most of the international investor base. This report is based on the assumptions and analysis made and believed to be reasonable by Advisor. However, no assurance can be given that Advisor's opinions or expectations will be correct. This report is intended for informational purposes only and should not be considered a recommendation or solicitation to purchase securities. ***Past performance is no guarantee of future results.***